



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	04/10/00	Bill No:	AB 1373
Tax:	Sales and Use	Author:	Florez
Board Position:		Related Bills:	

BILL SUMMARY:

This bill would provide a 5 percent state sales and use tax exemption for sales and purchases of tangible personal property by eligible entities that, among other things, locate and expand a business in a California county with a high unemployment rate.

ANALYSIS:

Current Law:

Under existing law, the sales or use tax applies to the sale or use of tangible personal property in this state, unless otherwise exempted or excluded by statute. Under the law, a base state and local sales and use tax rate of 7 ¼ percent is imposed as noted below:

- 5 percent state tax allocated to the state's General Fund (Section 6051, 6051.3, 6201 and 6201.3).
- 1/2 percent state tax allocated to the Local Revenue Fund which is dedicated to local governments for program realignment (Section 6051.2 and 6201.2).
- 1/2 percent state tax allocated to the Local Public Safety Fund which is dedicated to local governments to fund public safety services (Sec. 35 of Article XIII of the California Constitution).
- 1 1/4 percent Bradley-Burns Uniform Local Sales and Use Tax which is allocated to cities and counties (Part 1.5, commencing with Section 7200).
- 1/8 to 1 1/4 percent Transactions and Use Tax which is allocated to special taxing jurisdictions in various counties and cities within the state (Part 1.6, commencing with Section 7252).

Under Section 6377 of the Sales and Use Tax Law, a 5 percent sales and use tax exemption is extended to purchases of tangible personal property, as specified, by new manufacturing businesses for use in the course of their manufacturing or research activities. A similar 5 percent sales and use tax exemption is also available for purchases of tangible personal property, as defined, by establishments primarily engaged in teleproduction and post production activities.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

Proposed Law:

This bill would add Section 6378.1 to the Sales and Use Tax Law to provide a 5 percent state General Fund sales and use tax exemption for purchases of tangible personal property, as defined, by eligible entities, as determined by the California Infrastructure and Economic Development Bank (CIEDB) board. The bill would require the CIEDB board to develop a program to determine who is eligible to receive the partial exemption, monitor entities for compliance with the requirements of the exemption, and notify the Board of Equalization of any entities that have not fulfilled the requirements of the exemption.

The bill would, among other things, define “eligible entity” as one that complies with all of the following:

- The entity locates or expands a business in a California county with an average annual unemployment rate 3 percentage points or more above the statewide average, as specified.
- The entity makes a new investment of at least \$150 million in the county and maintains that level of investment for at least 24 months after the CIEDB board certifies that the entity is eligible.
- The entity employs at least 500 new full-time employees for a period of 24 months after the CIEDB board certifies that the entity is eligible.

The bill would define “tangible personal property” to mean machinery and equipment, including component parts, and would specify that “tangible personal property” does not include property used in administration, general management, or marketing; furniture, inventory, or equipment used to store products; or any property for which an income tax credit is claimed under Sections 17053.49 or 23649 of the Revenue and Taxation Code.

The bill would specify that, notwithstanding the three-year statute of limitations in the Sales and Use Tax Law, if the Board of Equalization is notified by the CIEDB board that an entity has not fulfilled the requirements of the exemption, the Board shall, within one year of that notification, examine the books and records of the entity, and issue a determination of any liabilities due.

The provisions of the bill would become operative on the first day of the calendar quarter commencing more than 90 days after the bill becomes effective.

COMMENTS:

1. **Sponsor and purpose of the bill.** This bill is sponsored by Governor Gray Davis in an effort to encourage investment in rural counties having higher unemployment rates.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

2. **Bill would not appear to be problematic to administer.** Since the CIEDB board would be responsible for determining the eligibility of the proposed exemption and monitoring entities for compliance with the requirements of the proposed exemption, the impact on this Board would be minimal.

COST ESTIMATE:

Costs to administer the proposed exemption would be absorbable.

REVENUE ESTIMATE:

The bill would specify that the annual amount of exemptions that may be granted shall not exceed \$5 million each year and that the CIEDB board shall not authorize any exemption that would result in an excess of \$5 million each year. Therefore, the potential revenue loss associated with this measure would not exceed that limit.

Analysis prepared by:	Sheila T. Sarem	445-6579	04/24/00
Contact:	Margaret S. Shedd	322-2376	
mcc			

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.